

Gland Pharma

Estimate change	↓
TP change	↓
Rating change	↔

CMP: INR1,793

TP: INR2,070 (+15%)

Buy

Superior execution in the base business during 4QFY24

Cenexi drags the overall performance

- Gland Pharma (GLAND) posted lower than expected 4QFY24 earnings. Weak Cenexi performance dragged down overall profitability for the quarter. Having said this, GLAND continued to exhibit strong traction in the base business (ex-Cenexi) aided by relaunches that went off-market due to issues at its partner's end.
- We cut our earnings estimates by 11%/9% for FY25/FY26, factoring in: 1) the extended operational challenges, 2) slower progress in the China business, and 3) a higher effective tax rate. We value GLAND at 27x 12M forward earnings to arrive at our TP of INR2,070. **Reiterate BUY.**
- While GLAND is implementing efforts to turnaround the Cenexi business, it has not only stabilized its base business but also built levers in terms of product pipeline/newer contracts to further scale-up the base business. It is also focusing on obtaining regulatory approvals for its biologics facility for subsequent scale-up of the business. Accordingly, we expect 11%/17%/20% CAGR in revenue/EBITDA/PAT over FY24-26 to INR70b/INR18.5b/INR11.2b.

Product mix benefits offset by reduced operating leverage

- GLAND's 4QFY24 revenue jumped 96% YoY to INR15.4b (est: INR16b). The base business (ex-Cenexi) grew 49.5% YoY to INR11.7b for the quarter. The core market sales surged ~2x YoY to INR11.8b (78% of sales). The RoW sales grew 64% YoY to INR2.8b (18% of sales). However, India sales declined 18.7% YoY to INR526m (3% of sales) for the quarter.
- Gross margin (GM) expanded 750bp YoY to 61% due to a change in product mix and the addition of a higher-GM Cenexi business.
- EBITDA margin expanded 190bp YoY to 23.3% (our estimate: 24.6%), as superior GM was offset by higher employee costs (up 980bp YoY as a % of sales). Other expenses were lower by 420bp YoY, as a % of sales. On ex-Cenexi basis, the EBITDA margin was 36.4% (+1,490bp YoY/+ 250bp QoQ).
- Consequently, EBITDA surged ~2x YoY to INR3.6b (our est: INR3.9b).
- Adj. PAT grew at a lower rate of 61.7% YoY to INR1.9b (our estimate: INR2.6b) due to higher depreciation, finance costs, and tax expenses.
- **For FY24**, Revenue/EBITDA grew 56%/30% YoY to INR56.6b/13.5b. However, PAT declined 5.6% YoY to INR7.8b.

Highlights from the management commentary

- GLAND indicated to grow 14-15% on an annual basis in the base business going forward.
- It intends to achieve a high-teen EBITDA margin in the Cenexi business over the next 1-2 years.
- Milestones income would be higher going forward due to the increased share of business from complex products.
- Management expects competition in Eribulin in the US market over the next six months.
- There will be a planned shutdown in Cenexi's business in Aug'24.

Bloomberg	GLAND IN
Equity Shares (m)	165
M.Cap.(INRb)/(USDb)	295.3 / 3.5
52-Week Range (INR)	2196 / 861
1, 6, 12 Rel. Per (%)	0/-10/77
12M Avg Val (INR M)	963

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	56.6	63.8	69.9
EBITDA	13.5	16.0	18.6
Adj. PAT	7.8	9.6	11.2
EBITDA Margin (%)	23.8	25.1	26.6
Cons. Adj. EPS (INR)	47.6	58.1	68.1
EPS Gr. (%)	(5.6)	22.1	17.3
BV/Sh. (INR)	529.7	587.8	655.9

Ratios

	FY24	FY25E	FY26E
Net D:E	(0.2)	(0.1)	(0.1)
RoE (%)	9.4	10.4	11.0
RoCE (%)	9.4	10.0	10.6
Payout (%)	-	-	-

Valuations

	FY24	FY25E	FY26E
P/E (x)	37.7	30.9	26.4
EV/EBITDA (x)	20.8	18.1	15.4
Div. Yield (%)	-	-	-
FCF Yield (%)	(1.4)	(3.3)	0.3
EV/Sales (x)	5.0	4.5	4.1

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	57.9	57.9	57.9
DII	25.2	24.2	23.2
FII	3.6	4.0	4.3
Others	13.3	13.9	14.6

FII Includes depository receipts

Consol. - Quarterly perf.

(INRm)

Y/E March	FY23				FY24				FY23	FY24	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	8,569	10,444	9,383	7,850	12,087	13,734	15,452	15,375	36,246	56,647	16,057	-4.3
YoY Change (%)	-25.7	-3.3	-11.8	-28.8	41.1	31.5	64.7	95.9	-17.6	56.3	104.6	
Total Expenditure	5,870	7,366	6,487	6,166	9,147	10,493	11,710	11,788	25,888	43,138	12,105	
EBITDA	2,699	3,079	2,895	1,684	2,940	3,241	3,742	3,587	10,358	13,509	3,952	-9.2
YoY Change (%)	-38.1	-18.2	-17.0	-51.7	8.9	5.3	29.2	113.0	-31.4	30.4	134.7	
Margins (%)	31.5	29.5	30.9	21.4	24.3	23.6	24.2	23.3	28.6	23.8	24.6	
Depreciation	349	367	376	375	653	813	1,053	926	1,467	3,446	891	
Interest	9	17	26	22	49	60	53	100	74	262	47	
Other Income	744	656	615	389	375	532	374	421	2,405	1,702	324	
PBT before EO expense	3,085	3,351	3,108	1,676	2,613	2,899	3,009	2,982	11,220	11,503	3,338	-10.6
One-off income/(expense)	0	120	0	565	0	0	178	0	685	178	0	
PBT	3,085	3,231	3,108	1,111	2,613	2,899	2,832	2,982	10,536	11,325	3,337	-10.6
Tax	793	828	789	325	672	958	913	1,058	2,735	3,601	728	
Rate (%)	25.7	25.6	25.4	29.2	25.7	33.0	32.2	35.5	26.0	31.8	21.8	
Reported PAT	2,292	2,402	2,319	787	1,941	1,941	1,919	1,924	7,800	7,724	2,610	-26.3
Adj PAT	2,292	2,511	2,319	1,186	1,941	1,941	2,039	1,918	8,307	7,839	2,610	-26.5
YoY Change (%)	-34.6	-16.9	-15.1	-58.5	-15.3	-22.7	-12.1	61.7	-31.4	-5.6	120.1	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24				FY23	FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
INRm										
Core Markets	7056	7475	6626	5498	8564	10198	12000	11938	26851	42641
YoY Growth (%)	0.2	12.4	-0.4	-22.7	21.4	36.4	81.1	117.1	-8	59
India	510	726	814	647	647	876	761	526	2501	2810
YoY Growth (%)	-77.5	-60.4	-58.3	-67.9	26.9	20.7	-6.5	-18.7	-60	12
Rest of the world	1002	2243	1943	1705	2876	2660	2842	2802	6984	11239
YoY Growth (%)	-55.0	-3.4	-4.3	-10.4	187.0	18.6	46.3	64.3	-18	61
Cost Break-up										
RM Cost (% of Sales)	43.7	49.1	45.5	46.5	37.5	38.0	38.8	39.0	46.3	38.4
Staff Cost (% of Sales)	11.4	9.7	10.8	13.1	21.1	22.2	22.3	22.9	11.1	22.2
Other Cost (% of Sales)	13.4	11.8	12.8	19.0	17.1	16.2	14.7	14.8	14.0	15.6
Gross Margins(%)	56.3	50.9	54.5	53.5	62.5	62.0	61.2	61.0	53.7	61.6
EBITDA Margins(%)	31.5	29.5	30.9	21.4	24.3	23.6	24.2	23.3	28.6	23.8
EBIT Margins(%)	27.4	26.0	26.9	16.7	18.9	17.7	17.4	17.3	24.5	17.8



Management call highlights

- The company expects EUR50m revenue (quarterly run rate) from 4QFY25 in the Cenexi business. Cenexi has EUR20m order backlog.
- It will focus on capacity rebalancing and developing more capabilities.
- It would speed up the tech transfer at Cenexi for faster product launches.
- The company has increased engagements to gain contracts for the high-margin complex biologics and generics.
- GLAND launched five molecules in the market, including Carboprost, Ketamine, Ganirelix Acetate, and Paclitaxel in the US markets.
- It filed 19 ANDAs and received 24 approvals in FY24.
- The growth in the US business was driven by relaunches; new launches are driving better volume off-take.

Base business stabilized; renewed focus on growth

Turnaround efforts at Cenexi/portfolio expansion to drive growth over the medium term

- In FY24, GLAND’s core market (ex-Cenexi) sales grew 22% YoY to INR32.5b. Including Cenexi, core markets jumped 56% YoY to INR42.6b.
- The growth is fueled by new launches, relaunches, and market leadership of existing products.
- During FY24, GLAND filed 19 ANDAs. It also received approvals for 24 products and launched 89 products (including re-launches).
- GLAND is developing and launching complex injectables with limited competition in the US markets. Further GLAND is exploring acquisitions, co-development, and partnership opportunities to accelerate growth in this segment.
- GLAND continues to identify products from the US basket that have the potential to enter new geographies, such as Australia and Europe.
- Moreover, it is focusing on improving the prospects for the Cenexi business and has devised a turnaround plan to make it profitable over the next 1-2 years.
- Overall, we expect 11% sales CAGR in the core markets to reach INR40.7b over FY24-26. This would be supported by additional sales of Cenexi, which is likely to grow at 6% to reach INR16.7b over FY24-26.

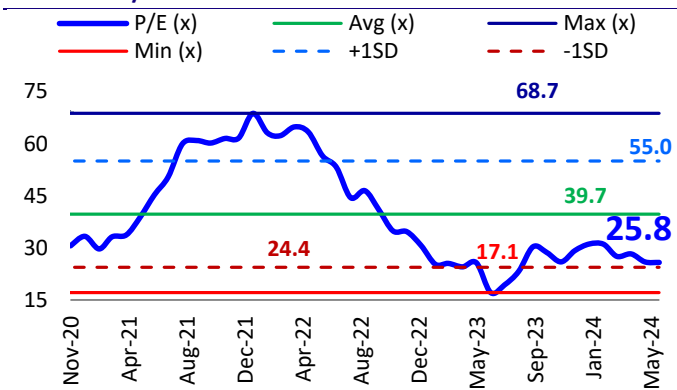
New launches and geographical expansion to drive the ROW market

- In FY24, the RoW markets witnessed 61% YoY growth to INR11b. This growth was due to the Cenexi acquisition. Ex-Cenexi, RoW market sales declined 5% YoY to INR6.5b.
- GLAND registered Meropenem, Busulfan, Fomepizole and Bimatoprost in new geographies during the quarter.
- Over FY24-26, we expect the ROW sales to clock 11% CAGR to reach INR8b, led by expansion in new geographies and new launches.

Reiterate BUY

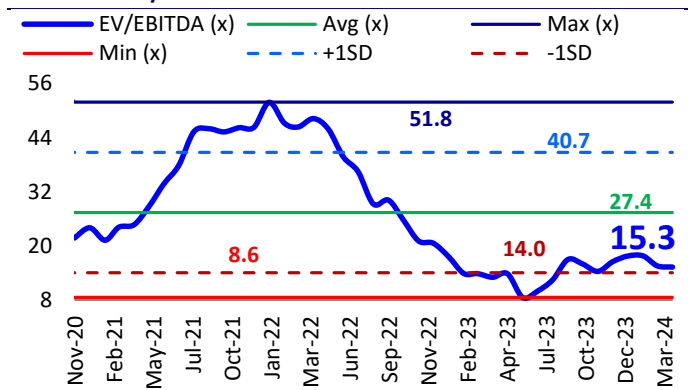
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Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 3: Expect 12% revenue CAGR over FY24-26

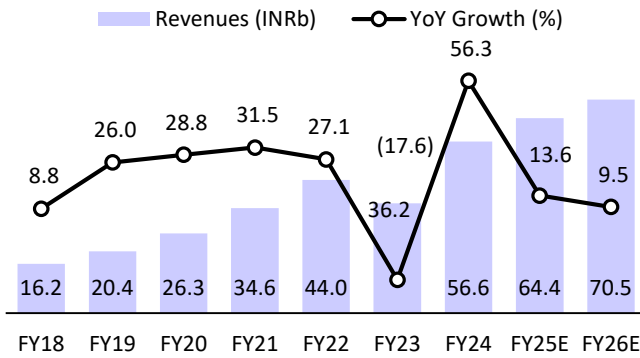


Exhibit 4: Expect 11% core market sales CAGR over FY24-26

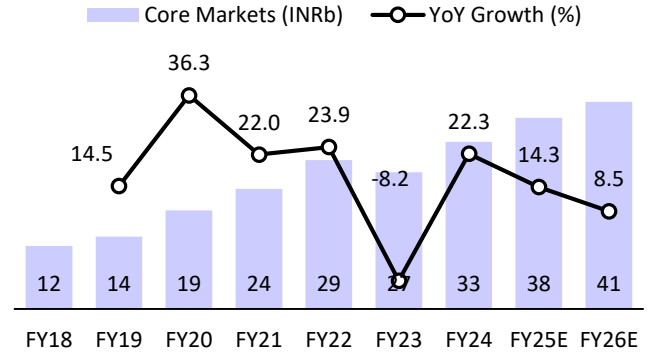


Exhibit 5: Expect ROW sales to post 2.6% CAGR over FY24-26

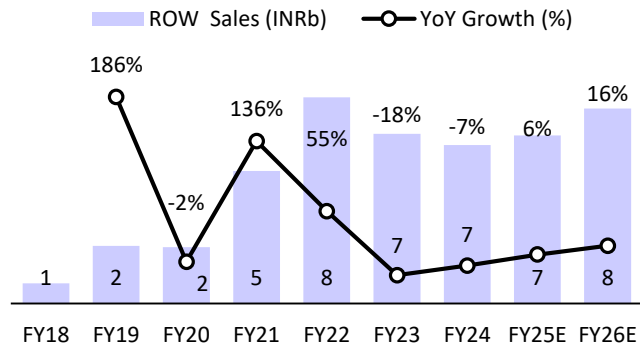


Exhibit 6: Expect 13% India sales CAGR over FY24-26

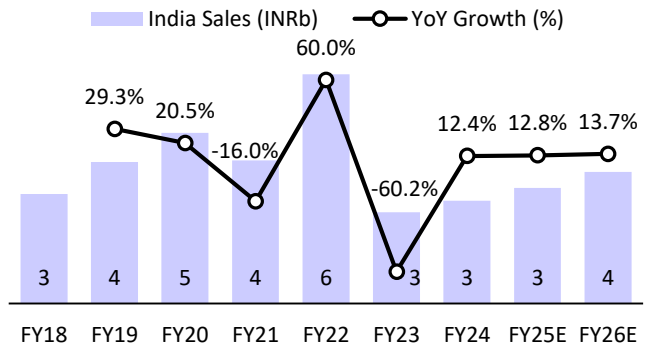


Exhibit 7: EBITDA margin to expand 280bp over FY24-26

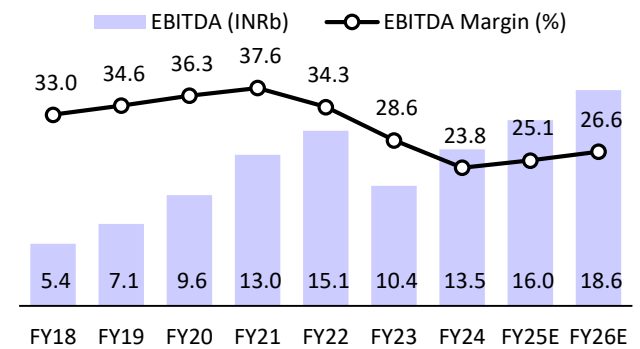
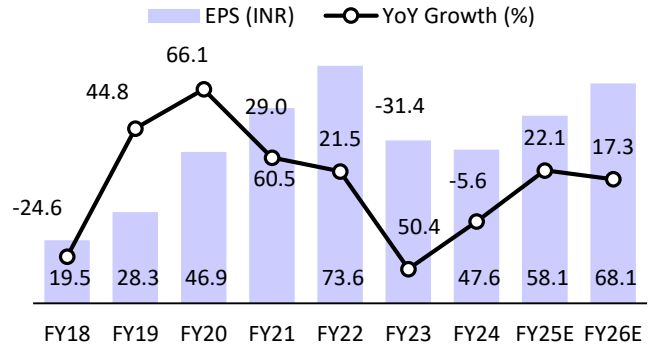


Exhibit 8: Expect EPS CAGR of 20% over FY24-26



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	20,442	26,332	34,629	44,007	36,246	56,647	63,798	69,939
Change (%)	26.0	28.8	31.5	27.1	-17.6	56.3	12.6	9.6
Total Expenditure	13,376	16,778	21,607	28,906	25,888	43,138	47,785	51,336
% of Sales	65.4	63.7	62.4	65.7	71.4	76.2	74.9	73.4
EBITDA	7,066	9,554	13,022	15,102	10,358	13,509	16,013	18,604
Margin (%)	34.6	36.3	37.6	34.3	28.6	23.8	25.1	26.6
Depreciation	820	946	988	1,103	1,467	3,446	3,983	4,251
EBIT	6,246	8,608	12,034	13,999	8,890	10,063	12,031	14,353
Int. and Finance Charges	36	72	34	52	74	262	74	67
Other Income	856	1,392	1,348	2,239	2,405	1,702	1,914	2,098
PBT bef. EO Exp.	7,067	9,928	13,348	16,186	11,220	11,503	13,870	16,384
EO Items	-200	0	0	0	-685	178	0	0
PBT after EO Exp.	6,867	9,928	13,348	16,186	10,536	11,325	13,870	16,384
Total Tax	2,345	2,200	3,378	4,069	2,735	3,601	4,300	5,161
Tax Rate (%)	34.1	22.2	25.3	25.1	26.0	31.8	31.0	31.5
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	4,522	7,728	9,970	12,117	7,800	7,724	9,570	11,223
Adjusted PAT	4,654	7,728	9,970	12,117	8,307	7,839	9,570	11,223
Change (%)	44.8	66.1	29.0	21.5	-31.4	-5.6	22.1	17.3
Margin (%)	21.9	27.9	27.7	26.2	21.5	13.4	14.6	15.6

Consolidated - Balance Sheet

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	155	155	164	164	165	165	165	165
Total Reserves	28,466	36,307	58,869	71,412	79,423	87,074	96,644	1,07,867
Net Worth	28,621	36,462	59,032	71,576	79,587	87,238	96,809	1,08,032
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	55	50	39	46	45	3,722	3,722	3,722
Deferred Tax Liabilities	1,076	741	739	878	842	1,697	1,697	1,697
Capital Employed	29,752	37,252	59,810	72,499	80,473	92,656	1,02,227	1,13,450
Gross Block	12,196	13,478	14,327	20,910	23,061	47,846	58,361	70,465
Less: Accum. Deprn.	2,908	3,797	4,785	5,888	7,355	10,801	14,784	19,035
Net Fixed Assets	9,288	9,681	9,542	15,022	15,705	37,045	43,578	51,430
Goodwill on Consolidation	0	0	0	0	0	2,423	0	0
Capital WIP	1,232	1,885	3,378	1,907	1,772	2,379	9,088	6,650
Total Investments	0	0	0	1,549	0	6,559	6,559	6,559
Curr. Assets, Loans&Adv.	24,707	29,295	52,040	59,858	70,298	57,703	57,992	65,034
Inventory	9,119	7,563	12,752	11,857	19,453	16,552	24,874	26,723
Account Receivables	5,061	6,018	6,710	11,988	8,714	15,587	14,682	16,096
Cash and Bank Balance	7,534	13,252	30,058	30,934	37,707	18,394	10,361	13,365
Loans and Advances	2,994	2,462	2,521	5,079	4,424	7,169	8,074	8,851
Curr. Liability & Prov.	5,473	3,608	5,150	5,836	7,302	13,451	14,989	16,222
Account Payables	4,568	2,677	4,007	4,629	5,874	8,627	9,556	10,266
Other Current Liabilities	765	649	892	960	1,115	2,863	3,224	3,535
Provisions	139	282	251	248	313	1,961	2,209	2,421
Net Current Assets	19,234	25,687	46,890	54,022	62,997	44,252	43,003	48,812
Deferred Tax assets	0	0	0	0	0	0	0	0
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	29,752	37,252	59,810	72,499	80,473	92,656	1,02,227	1,13,450

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	28.3	46.9	60.5	73.6	50.4	47.6	58.1	68.1
Cash EPS	35.3	56.0	67.0	80.5	59.3	68.5	82.3	94.0
BV/Share	184.7	235.2	360.9	435.6	483.2	529.7	587.8	655.9
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	63.6	38.3	29.7	24.4	35.6	37.7	30.9	26.4
Cash P/E	50.9	32.1	26.8	22.3	30.3	26.2	21.8	19.1
P/BV	9.7	7.6	5.0	4.1	3.7	3.4	3.1	2.7
EV/Sales	13.3	10.1	7.6	6.0	7.1	5.0	4.5	4.1
EV/EBITDA	38.3	27.8	20.3	17.5	24.9	20.8	18.1	15.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	3.2	34.2	23.0	17.0	8.6	-25.6	-59.9	5.9
Return Ratios (%)								
RoE	17.7	23.7	20.9	18.6	11.0	9.4	10.4	11.0
RoCE	17.7	23.9	20.9	18.6	11.1	9.4	10.0	10.6
RoIC	21.9	31.2	37.1	32.5	16.6	12.9	11.7	12.1
Working Capital Ratios								
Asset Turnover (x)	1.7	2.0	2.4	2.1	1.6	1.2	1.1	1.0
Inventory (Days)	163	116	134	98	196	107	142	139
Debtor (Days)	90	83	71	99	88	100	84	84
Creditor (Days)	82	37	42	38	59	56	55	54
Leverage Ratio (x)								
Net Debt/Equity	-0.3	-0.4	-0.5	-0.45	-0.47	-0.2	-0.1	-0.1

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
(INRm)								
OP/(Loss) before Tax	6,864	9,929	13,348	16,186	10,546	11,325	13,870	16,384
Depreciation	820	946	988	1,103	1,467	3,446	3,983	4,251
Interest & Finance Charges/ (Income)	-408	-452	28	33	63	218	-1,840	-2,031
Direct Taxes Paid	-2,235	-2,441	-3,114	-4,065	-3,109	-3,061	-4,300	-5,161
(Inc)/Dec in WC	-3,540	-799	-4,358	-3,931	-4,179	-532	-6,784	-2,806
CF from Operations	1,501	7,181	6,893	9,326	4,788	11,396	4,929	10,637
Others	350	-172	-843	-1,418	-1,148	-1,428	0	0
CF from Operating incl EO	1,851	7,009	6,049	7,908	3,640	9,968	4,929	10,637
(Inc)/Dec in FA	-1,352	-1,708	-2,283	-5,113	-2,230	-14,192	-14,802	-9,665
Free Cash Flow	499	5,302	3,766	2,794	1,410	-4,224	-9,873	972
(Pur)/Sale of Investments	0	0	-13,576	-2,613	12,706	-4,747	0	0
Others	-1,834	-5,902	619	-2,300	1,606	1,371	1,914	2,098
CF from Investments	-3,186	-7,610	-15,240	-10,026	12,082	-17,569	-12,889	-7,567
Issue of Shares	0	0	12,250	0	215	5	0	0
Inc/(Dec) in Debt	-4	-7	-9	-1	-3	-7,743	0	0
Interest Paid	-25	-62	-23	-33	-63	-256	-74	-67
Dividend Paid	0	0	0	0	0	0	0	0
CF from Fin. Activity	-29	-69	12,386	320	-8,949	-11,711	-74	-67
Inc/Dec of Cash	-1,364	-669	3,195	-1,799	6,773	-19,312	-8,033	3,003
Opening Balance	3,728	2,363	1,694	4,889	3,091	9,863	-9,449	-17,482
Closing Balance	2,363	1,694	4,889	3,091	9,863	-9,449	-17,482	-14,479
Term Deposit with Banks	5,170	11,558	25,168	27,844	27,844	27,844	27,844	27,844
Total Cash & Cash Eq	7,533	13,252	30,057	30,934	37,707	18,395	10,361	13,365

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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